

Milwaukee Water Works

Estimated 2014 Operating Income Statement

Net Investment Rate Base

and 2014 Estimated Revenue Requirement

Public Service Commission of Wisconsin

Division of Water, Compliance, and Consumer Affairs

Milwaukee Water Works
3720-WR-108

Estimated Operating Income Statement
and Net Investment Rate Base
2014 Test Year

	Utility Estimate	No.	Adjustments Amount	Staff Estimate
Total Operating Revenues:	\$83,387,820	1	\$2,133,906	\$85,521,726
Operating Expenses:				
Source of Supply	\$0		\$0	\$0
Pumping	7,502,433	2	(274,987)	7,227,446
Water Treatment	12,952,954	3	(650,512)	12,302,442
Transmission and Distribution	17,404,300	4	(860,040)	16,544,260
Customer Accounts	1,245,489	5	(253,951)	991,538
Sales	0		0	0
Administrative and General	13,861,355	6	(1,898,370)	11,962,985
Total Operation & Maintenance Expenses	\$52,966,531		(\$3,937,860)	\$49,028,671
Depreciation	12,235,164	7	1,874,268	14,109,432
Amortization	0		0	0
Taxes	13,260,582	8	396,246	13,656,828
Total Operating Expenses	\$78,462,277		(\$1,667,346)	\$76,794,931
Net Operating Income (Loss)	\$4,925,543		\$3,801,252	\$8,726,795
Net Investment Rate Base:				
Utility Plant in Service	\$535,077,912	9a	\$8,464,395	\$543,542,307
Less:				
Accumulated Provision for Depreciation	203,917,411	9b	(1,613,321)	202,304,090
Net Plant in Service	\$331,160,501		\$10,077,716	\$341,238,217
Add: Materials and Supplies	2,600,000		0	2,600,000
Less: Regulatory Liability - pre-2003				
Depreciation on Contributed Plant	7,707,596		0	7,707,596
Net Investment Rate Base	\$326,052,905		\$10,077,716	\$336,130,621
Rate of Return	1.51%			2.60%

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Estimated Operating Income Statement
Average Net Investment Rate Base and
Revenue Requirement to Yield the Proposed Rate of Return
2014 Test Year

	Staff Estimate	Increase Required	Proposed Rate Level
Total Operating Revenues:	\$85,521,726	\$6,694,959	\$92,216,685
Operating Expenses:			
Source of Supply	\$0		\$0
Pumping	7,227,446		7,227,446
Water Treatment	12,302,442		12,302,442
Transmission and Distribution	16,544,260		16,544,260
Customer Accounts	991,538		991,538
Sales	0		0
Administrative and General	11,962,985		11,962,985
Total Operation & Maintenance Expenses	\$49,028,671		\$49,028,671
Depreciation	14,109,432		14,109,432
Amortization	0		0
Taxes	13,656,828		13,656,828
Total Operating Expenses	\$76,794,931		\$76,794,931
Net Operating Income (Loss)	\$8,726,795		\$15,421,754
Net Investment Rate Base:			
Utility Plant in Service	\$535,077,912		\$535,077,912
Less:			
Accumulated Provision for Depreciation	203,917,411		203,917,411
Net Plant in Service	\$331,160,501		\$331,160,501
Add: Materials and Supplies	2,600,000		2,600,000
Less: Regulatory Liability - pre-2003 Depreciation on Contributed Plant	7,707,596		7,707,596
Net Investment Rate Base	\$326,052,905		\$326,052,905
Rate of Return	2.68%		4.63%

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Estimated Operating Revenues - Summary
2014 Test Year

	Utility Estimate	Adjustments		Staff Estimate
		No.	Amount	
Unmetered Sales to General Customers	\$42,000			\$42,000
Metered Sales to General Customers:				
Residential	\$33,926,540		\$586,751	\$34,513,291
Commercial	19,149,277		806,390	19,955,667
Industrial	5,784,973		195,286	5,980,259
Public Authority	<u>3,657,696</u>		<u>524,172</u>	<u>4,181,868</u>
Total Metered Sales	\$62,518,486		\$2,112,599	\$64,631,085
Private Fire Protection	719,666		0	719,666
Public Fire Protection	6,552,990		172,032	6,725,022
Sales for Resale	9,724,678		(150,725)	9,573,953
Interdepartmental	<u>0</u>		<u>0</u>	<u>0</u>
Total Water Sales	\$79,557,820		\$2,133,906	\$81,691,726
Forfeited Discounts	3,000,000		0	3,000,000
Rents of Water Property	330,000		0	330,000
Interdepartmental Rents	0		0	0
Other Water Revenues	<u>500,000</u>		<u>0</u>	<u>500,000</u>
Total Operating Revenues	<u>\$83,387,820</u>		<u>\$2,133,906</u>	<u>\$85,521,726</u>

**Milwaukee Water Works
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Estimated Operating Revenues - Detail
2014 Test Year**

Schedule 3a

<u>Account</u>	<u>Utility Estimate</u>	<u>Volume Adjustment</u>	<u>Meters Adjustment</u>	<u>SRC Adjustment</u>	<u>Staff Estimate</u>
460 Unmetered	42,000	-	-	-	42,000
461 Residential - Urban	30,205,649	(61,680)	(251,332)	872,138	30,764,775
Residential - Suburban	3,565,461	(79,773)	(1,800)	104,745	3,588,633
Residential - West Milw.	155,430	-	(228)	4,680	159,882
	<u>33,926,540</u>				<u>34,513,291</u>
461 Commerial - Urban	16,599,937	49,077	69,418	500,997	17,219,429
Commerial - Suburban	2,420,434	-	86,225	75,244	2,581,903
Commerial - West Milw.	128,906	-	20,918	4,511	154,335
	<u>19,149,277</u>				<u>19,955,667</u>
461 Industrial - Urban	5,288,905	-	(130)	158,986	5,447,761
Industrial - Suburban	96,859	-	1,370	2,947	101,176
Industrial - West Milw.	399,209	-	19,445	12,668	431,322
	<u>5,784,973</u>				<u>5,980,259</u>
464 Public Authority - Urban	3,611,406	-	12,148	109,142	3,732,696
Public Authority - Suburban	46,290	-	(134)	1,389	47,545
Public Authority - West Milw.	-	-	-	-	-
County Institutions	470,756	(79,869)		10,740	401,627
	<u>4,128,452</u>				<u>4,181,868</u>
462 Private Fire	719,666	-	-	-	719,666
463 Public Fire	6,552,990	-	57,872	114,160	6,725,022
466 Sale for Resale	9,253,922	29,664	-	290,367	9,573,953
470 Forfeited discounts	3,000,000	-	-	-	3,000,000
472 Rents from water property	330,000	-	-	-	330,000
474 Other water revenues	500,000	-	-	-	500,000
	<u>20,356,578</u>				<u>20,848,642</u>
Total	<u>83,387,820</u>	<u>(142,581)</u>	<u>13,772</u>	<u>2,262,714</u>	<u>85,521,725</u>

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Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
<u>Adjustment No. 1a</u>	
To adjust the utility's estimated operating revenues to the 2014 PSC estimate as follows:	(\$142,581)
a. To decrease Urban Residential revenues based upon the 2010-2013 average usage of 12,865,000 ccf which reflects the lower usage by customers in recent years.	(61,680)
b. To decrease Suburban Residential revenues based upon the 2010-2013 average usage of 1,151,000 ccf which reflects the lower usage by customers in recent years.	(79,773)
c. To increase Urban Commercial revenues based upon the revised utility estimate of 9,027,000 ccf. This volume is closer to the four year average usage of 9,127,000 ccf while also reflecting the downward trend in usage.	49,077
d. To decrease Sales for Resale revenues (County Institutions) based upon the 2013-2014 average of 358,000 ccf. The reduced usage is due to water saving changes by some of the largest water customers on the County Grounds.	(79,869)
e. To increase Sales for Resale revenues (Menomonee Falls) based upon the revised utility estimate of 1,450,000 ccf. This volume is closer to the five year average usage of 1,501,000 ccf while also reflecting the downward trend in usage.	29,664
Total Decrease	<u>(\$142,581)</u>
<u>Adjustment No. 1b</u>	
To increase the utility's estimated operating revenues to the 2014 PSC estimate based on updated meter counts provided by the utility. A detailed breakdown of this adjustment is provided in Schedule 3a.	\$13,772
<u>Adjustment No. 1c</u>	
To increase the utility's estimated operating revenues to the 2014 PSC estimate based on rates that will be effective on June 1, 2014, as authorized in docket 3720-WQ-104. A detailed breakdown of this adjustment is provided in Schedule 3a.	\$2,262,714

Milwaukee Water Works
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Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
<u>Summary of Adjustment to Labor Expenses</u>	
To decrease the utility's estimated labor expenses of \$15,354,719 to the 2014 PSC estimate of \$14,492,962 based upon 2013 actual labor expense inflated by a four percent increase to 2014. The utility proposed this revision. The adjustment was allocated to accounts by 2013 relative labor in functional categories as follows:	
- 633, Maintenance of Pumping Equipment	(\$40,000)
- 652, Maintenance of Water Treatment Equipment	(\$350,000)
- 673, Maintenance of Transmission and Distribution Mains	(\$305,000)
- 902, Meter Reading Labor	(\$25,000)
- 920, Administrative and General Salaries.	<u>(\$142,000)</u>
Total labor adjustment	(\$862,000)
Staff used a base period for labor of 2013 instead of a historical average because labor has decreased every year since 2010. This can be see on Attachment 10AB, page 1, of the application. Staff did not continue the trend and forecast a decrease as 2014 has experienced a large number of main breaks which have involved overtime compensation. It is reasonable to normalize such a spike in labor expenses. Further, the meter shop was not fully staffed in 2013.	
These labor adjustments have been included in the specific accounts below.	
<u>Adjustment No. 2</u>	
To decrease the utility's estimated Pumping Expenses of \$7,502,433 to the 2014	(\$274,987)
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a. To decrease the utility's estimated Maintenance of Structures and Improvements of \$394,987 to the 2014 PSC estimate of \$160,000 to remove \$715,000 of booster station decommissioning costs from the historical costs in computing a three year average of inflated costs.	(\$234,987)
b. To decrease Account 633, Maintenance of Pumping Equipment by \$40,000 for the labor adjustment.	<u>(\$40,000)</u>
Total Decrease	<u><u>(\$274,987)</u></u>

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Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
<u>Adjustment No. 3</u>	
To decrease the utility's estimated Water Treatment Expenses of \$12,952,954 to the 2014 PSC estimate of \$12,302,442 as follows:	(\$650,512)
a. To decrease the utility's estimated Chemicals expenses of \$3,127,292 to the 2014 PSC estimate of \$2,551,781 to reflect a full year of the 2012 price decreases by inflating the 2013 actual expenses by one percent.	(\$575,511)
b. To increase the utility's Maintenance of Water Treatment Equipment expense to revise the amortization of infrequently incurred projects from the utility initial estimate of \$325,000 to the PSC estimate of \$600,000 as follows:	\$275,000
- Riverside inspections	\$200,000
- Northpoint inspections	20,000
- Linnwood flocculator	75,000
- Linnwood steel pipe	50,000
- Tank drain down inspections	30,000
- Joint seals, lining, feeder mains	150,000
- Ozone dielectrics.	75,000
Total	<u>\$600,000</u>
c. To decrease Account 652, Maintenance of Water Treatment Equipment by \$350,000 for the labor adjustment.	<u>(\$350,000)</u>
Total Decrease	<u><u>(\$650,511)</u></u>
<u>Adjustment No. 4</u>	
To decrease the utility's estimated Transmission and Distribution Expenses of \$17,404,300 to the 2014 PSC estimate of \$16,544,260 as follows:	(\$860,040)
a. To decrease the utility's estimated Maintenance of Distribution Reservoirs and Standpipes expense of \$1,055,039 to the 2014 PSC estimate of \$500,000 based upon:	(\$555,040)
- estimated routine expenses of \$17,000	
- an estimated \$483,000, which is the cost to paint six reservoirs normalized over 20 years.	
b. To decrease Account 673, Maintenance of Transmission and Distribution Mains by \$305,000 for the labor adjustment.	<u>(\$305,000)</u>
Total Decrease	<u><u>(\$860,040)</u></u>

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Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
<u>Adjustment No. 5</u>	
To decrease the utility's estimated Customer Accounts Expenses of \$1,245,489 to the 2014 PSC estimate of \$991,538 as follows:	(253,951)
a. To decrease the utility's estimated Uncollectible Accounts expenses of \$318,951 to the 2014 PSC estimate of \$90,000 as uncollectible amounts may be put on the tax rolls. The amount of \$90,000 was based on an average of the last three years actual written off of bankrupt accounts. The utility's expense was based on a forecast that uncollectible accounts would be one percent of sales.	(228,951)
b. To decrease Account 902, Meter Reading Labor by \$25,000 for the labor adjustment.	<u>(25,000)</u>
Total Decrease	<u><u>(253,951)</u></u>
<u>Adjustment No. 6</u>	
To decrease the utility's estimated Administrative and General Expenses of \$13,861,355 to the 2014 PSC estimate of \$11,962,985 as follows:	(1,898,370)
a. To decrease the utility's estimated Employee Pensions and Benefits expense of \$8,223,369 to the 2014 PSC estimate of \$6,467,000 based upon:	(1,756,370)
- Pensions estimate based on:	
*2014 labor costs of \$14,492,963	
*Stable Employer Compensation Policy 2014 rate of 9.24%	
*\$2,126,468 of wages for employees starting after Jan. 1, 2010	
*Employer payment of employee contribution for those employees starting before Jan. 1, 2010 at 5.5%	
*Accepted utility revised pension estimate of \$2,142,000.	
- Other benefits based on utility revised estimate which is consistent with 2013 increased by one percent. 2013 includes a full year of employees making additional contributions to their benefits.	
*Health \$4,075,000	
*Dental 90,000	
*Group Life 110,000	
*Unemployment 30,000	
*Education <u>20,000</u>	
Total \$4,325,000	
b. To decrease Account 920, Administrative and General Salaries by \$142,000 for the labor adjustment.	<u>(142,000)</u>
Total Decrease	<u><u>(1,898,370)</u></u>

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Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
<u>Adjustment No. 7</u>	
To increase the utility's estimated Depreciation Expense of \$12,235,164 to the 2014 PSC estimate of \$14,109,432 based upon:	\$1,874,268
<ul style="list-style-type: none"> - incorporation of PSC adjustments to Plant in Service - estimated 2014 depreciation accruals using authorized rates - reclassification of a portion of Water Treatment Equipment to Account 334, Other Water Treatment Equipment, from Account 332, Sand and Media Filtration Equipment. 	
The reclassification of the water treatment plant explains \$1,709,100 of this adjustment. $(\$63,300,000 * 2.7\%) (6.0\% - 3.3\% = 2.7\%)$	
<u>Adjustment No. 8</u>	
To increase the utility's estimated Taxes expense of \$13,260,582 to the 2014 PSC estimate of \$13,656,828 based upon:	396,246
<ul style="list-style-type: none"> - the estimated property including inventory and supplies - 2013 actual property tax rates increased by one percent - the estimated social security taxes - the estimated PSC remainder assessment - an allocation of a portion of taxes on meters to the sewer department. 	
The primary reasons for the increase to tax expense are the staff adjustments that increased Plant in Service and increasing the tax rate to one percent greater than the actual 2013 rate.	
Total Income Statement Adjustments	<u>\$3,801,252</u>

Milwaukee Water Works
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Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
Adjustment No. 9	
To adjust the utility's estimated Net Investment Rate Base of \$326,052,905 to the 2014 PSC estimate \$336,130,621 as follows:	<u>\$10,077,716</u>
a. To increase Plant In Service to the 2014 PSC estimate based upon:	\$8,464,394
- reclassification for the meter replacement program in 2014 from routine to major (\$5,000,000 - \$3,000,000) / 2	\$1,000,000
- increases to 2013 additions and retirements based on actual additions and retirements listed below	
Plant Additions:	
* 343, Transmission and Distribution Mains	\$4,550,000
* 346, Water Meters	\$1,246,000
* 392, Transportation Equipment	<u>(\$480,000)</u>
Total Effect	\$5,316,000
Plant Retirements:	
* 343, Transmission and Distribution Mains	\$277,500
* 346, Water Meters	\$210,160
* 392, Transportation Equipment	<u>(\$45,000)</u>
Total Effect	(\$442,660)
- increases to 2014 Accounts 343 and 346 to include plant that will be closed from construction work in progress. (Hydrants \$645,527 + Mains \$3,436,581) / 2	\$2,041,054
- increases to 2014 additions to Account 325 to include the Howard Motor Controls project for which construction authority was granted in 2014 and the project will be complete in 2014. All other projects for which construction authority has been requested will not be completed in 2014. (\$1,100,000 / 2)	<u>\$550,000</u>
Total Plant In Service Adjustment	<u>\$8,464,394</u>

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Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
Adjustment No. 9 (continued)	
b. To decrease the utility's Accumulated Provision for Depreciation to the 2014 PSC estimate based upon the items noted below. (Positive numbers are an increase to rate base and a decrease to accumulated depreciation.)	\$1,613,321
- decrease accumulated depreciation for reclassification of the meter replacement retirements from routine to major (\$3,000,000 / 2)	\$1,500,000
- decrease accumulated depreciation to reclassify \$715,000 to cost of removal for booster station decommissioning costs	\$715,000
- various other adjustments that increase accumulated depreciation including the following:	<u>(\$601,679)</u>
* incorporation of PSC adjustments to Plant in Service	
* estimated 2013 and 2014 depreciation accruals using authorized rates	
* adjustments to retirements in 2013 and 2014.	
Total Accumulated Depreciation Adjustment	<u>\$1,613,321</u>
Total Increase to Rate Base	<u>\$10,077,715</u>

Milwaukee Water Works
Schedule of Depreciation Rates
Effective January 1, 2014

Schedule 5

<u>Account Number</u>	<u>Account Title</u>	<u>Deprec. Rate</u>
	SOURCE OF SUPPLY PLANT	
313	Lake, River and Other Intakes	1.7%
316	Supply Mains	1.8%
	PUMPING PLANT	
321	Structures and Improvements	3.2%
325	Electric Pumping Equipment	4.4%
	WATER TREATMENT PLANT	
331	Structures and Improvements	3.2%
332	Sand and Other Media Filtration Equipment	3.3%
334	Other Water Filtration Equipment	6.0%
	TRANSMISSION AND DISTRIBUTION PLANT	
342	Distribution Reservoirs and Standpipes	1.9%
343	Transmission and Distribution Mains	1.3%
346	Meters	5.5%
348	Hydrants	2.2%
	GENERAL PLANT	
390	Structures and Improvements	2.9%
391	Office Furniture and Equipment	5.8%
391.1	Computer Equipment	26.7%
392	Transportation Equipment	13.3%
393	Stores Equipment	5.8%
394	Tools, Shop and Garage Equipment	5.8%
395	Laboratory Equipment	5.8%
396	Power Operated Equipment	7.5%
397	Communication Equipment	15.0%
397.1	SCADA Equipment	9.2%
398	Miscellaneous Equipment	5.8%